

KELLOGG CO
Form 10-K
February 26, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended January 2, 2010

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For The Transition Period From _____ To _____

Commission file number 1-4171

Kellogg Company

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of Incorporation
or organization)

38-0710690
(I.R.S. Employer Identification No.)

One Kellogg Square
Battle Creek, Michigan 49016-3599
(Address of Principal Executive Offices)

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Registrant's telephone number: (269) 961-2000

Securities registered pursuant to Section 12(b) of the Securities Act:

Title of each class:
Common Stock, \$.25 par value per share

Name of each exchange on which registered:
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Securities Act: None

Indicate by a check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the common stock held by non-affiliates of the registrant (assuming only for purposes of this computation that the W. K. Kellogg Foundation Trust, directors and executive officers may be affiliates) as of the close of business on July 4, 2009 was approximately \$13.7 billion based on the closing price of \$46.82 for one share of common stock, as reported for the New York Stock Exchange on that date.

As of January 29, 2010, 380,565,213 shares of the common stock of the registrant were issued and outstanding.

Parts of the registrant's Proxy Statement for the Annual Meeting of Shareowners to be held on April 23, 2010 are incorporated by reference into Part III of this Report.

PART 1.

ITEM 1. BUSINESS

The Company. Kellogg Company, founded in 1906 and incorporated in Delaware in 1922, and its subsidiaries are engaged in the manufacture and marketing of ready-to-eat cereal and convenience foods.

The address of the principal business office of Kellogg Company is One Kellogg Square, P.O. Box 3599, Battle Creek, Michigan 49016-3599. Unless otherwise specified or indicated by the context, Kellogg, we, us and our refer to Kellogg Company, its divisions and subsidiaries.

Financial Information About Segments. Information on segments is located in Note 17 within Notes to the Consolidated Financial Statements.

Principal Products. Our principal products are ready-to-eat cereals and convenience foods, such as cookies, crackers, toaster pastries, cereal bars, fruit snacks, frozen waffles and veggie foods. These products were, as of February 26, 2010, manufactured by us in 18 countries and marketed in more than 180 countries. Our cereal products are generally marketed under the **Kellogg** s name and are sold principally to the grocery trade through direct sales forces for resale to consumers. We use broker and distribution arrangements for certain products. We also generally use these, or similar arrangements, in less-developed market areas or in those market areas outside of our focus.

We also market cookies, crackers, and other convenience foods, under brands such as **Kellogg** s, **Keebler**, **Cheez-It**, **Murray**, **Austin** and **Famous Amos**, to supermarkets in the United States through a direct store-door (DSD) delivery system, although other distribution methods are also used.

Additional information pertaining to the relative sales of our products for the years 2007 through 2009 is located in Note 17 within Notes to the Consolidated Financial Statements, which are included herein under Part II, Item 8.

Raw Materials. Agricultural commodities are the principal raw materials used in our products. Cartonboard, corrugated, and plastic are the principal packaging materials used by us. World supplies and prices of such commodities (which include such packaging materials) are constantly monitored, as are government trade policies. The cost of such commodities may fluctuate widely due to government policy and regulation, weather conditions, or other unforeseen circumstances. Continuous efforts are made to maintain and improve the quality and supply of such commodities for purposes of our short-term and long-term requirements.

The principal ingredients in the products produced by us in the United States include corn grits, wheat and wheat derivatives, oats, rice, cocoa and chocolate, soybeans and soybean derivatives, various fruits, sweeteners, flour, vegetable oils, dairy products, eggs, and other filling ingredients, which are obtained from various sources. Most of these commodities are purchased principally from sources in the United States.

We enter into long-term contracts for the commodities described in this section and purchase these items on the open market, depending on our view of possible price fluctuations, supply levels, and our relative negotiating power. While the cost of some of these commodities has, and may continue to, increase over time, we believe that we will be able to purchase an adequate supply of these items as needed. As further discussed herein under Part II, Item 7A, we also use commodity futures and options to hedge some of our costs.

Raw materials and packaging needed for internationally based operations are available in adequate supply and are sometimes imported from countries other than those where used in manufacturing.

Natural gas and propane are the primary sources of energy used to power processing ovens at major domestic and international facilities, although certain locations may use oil or propane on a back-up or alternative basis. In addition, considerable amounts of diesel fuel are used in connection with the distribution of our products. As further discussed herein under Part II, Item 7A, we use over-the-counter commodity price swaps to hedge some of our natural gas costs.

Trademarks and Technology. Generally, our products are marketed under trademarks we own. Our principal trademarks are our housemarks, brand names, slogans, and designs related to cereals and convenience foods manufactured and marketed by us, and we also grant licenses to third parties to use these marks on various goods. These trademarks include **Kellogg** s for cereals, convenience foods and our other products, and the brand names of certain ready-to-eat cereals, including **All-Bran**, **Apple Jacks**, **Bran Buds**, **Complete** Bran Flakes, **Complete** Wheat

Flakes, **Cocoa Krispies**, **Cinnamon Crunch Crispix**, **Corn Pops**, **Cruncheroos**, **Kellogg** s **Corn Flakes**, **Cracklin** **Oat Bran**, **Crispix**, **Froot Loops**, **Kellogg** s

Frosted Flakes, Frosted Mini-Wheats, Frosted Krispies, Just Right, Kellogg's Low Fat Granola, Mueslix, Pops, Product 19, Kellogg's Raisin Bran, Rice Krispies, Raisin Bran Crunch, Smacks/Honey Smacks, Smart Start, Special K and Special K Red Berries in the United States and elsewhere; *Zucaritas, Choco Zucaritas, Crusli, Sucrilhos, Sucrilhos Chocolate, Sucrilhos Banana, Vector, Musli, NutriDia*, and *Choco Krispis* for cereals in Latin America; *Vive* and *Vector* in Canada; *Choco Pops, Chocos, Crunch Red Nut, Frosties, Muslix, Fruit n Fibre, Kellogg's Crunchy Nut Corn Flakes, Honey Loops, Kellogg's Extra, Sustain, Muslix, Country Store, Ricicles, Smacks, Start, Pops, Optima and Tresor* for cereals in Europe; and *Cerola, Sultana Bran, Chex, Frosties, Goldies, Rice Bubbles, Nutri-Grain, Kellogg's Iron Man Food*, and *BeBig* for cereals in Asia and Australia. Additional Company trademarks are the names of certain combinations of ready-to-eat *Kellogg's* cereals, including *Fun Pak, Jumbo*, and *Variety*.

Other Company brand names include *Kellogg's* Corn Flake Crumbs; *Croutettes* for herb season stuffing mix; *All-Bran, Choco Krispis, Froot Loops, NutriDia, Kuadri-Krispis, Zucaritas, Special K*, and *Crusli* for cereal bars, *Keloketas* for cookies, *Komplete* for biscuits; and *Kaos* for snacks in Mexico and elsewhere in Latin America; *Pop-Tarts Pastry Swirls* for toaster danish; *Pop-Tarts* and *Pop-Tarts Snak-Stix* for toaster pastries; *Eggo, Special K, Froot Loops* and *Nutri-Grain* for frozen waffles and pancakes; *Rice Krispies Treats* for baked snacks and convenience foods; *Special K* and *Special K2O* flavored water and flavored protein water mixes; *Nutri-Grain* cereal bars, *Nutri-Grain* yogurt bars, *All-Bran* bars and crackers, for convenience foods in the United States and elsewhere; *K-Time, Rice Bubbles, Day Dawn, Be Natural, Sunibrite* and *LCMs* for convenience foods in Asia and Australia; *Nutri-Grain* Squares, *Nutri-Grain Elevenses*, and *Rice Krispies Squares* for convenience foods in Europe; *Fruit Winders* for fruit snacks in the United Kingdom; *Kashi* and *GoLean* for certain cereals, nutrition bars, and mixes; *TLC* for granola and cereal bars, crackers and cookies; *Special K* and *Vector* for meal replacement products; *Bear Naked* for granola cereal, bars and trail mix and *Morningstar Farms, Loma Linda, Natural Touch, Gardenburger* and *Worthington* for certain meat and egg alternatives.

We also market convenience foods under trademarks and tradenames which include *Keebler, Cheez-It, E. L. Fudge, Murray, Famous Amos, Austin, Ready Crust, Chips Deluxe, Club, Kellogg's FiberPlus, Fudge Shoppe, Hi-Ho, Sunshine, Krispy, Mother's, Munch Ems, Right Bites, Sandies, Soft Batch, Stretch Island, Toasteds, Town House, Vienna Fingers, Wheatables*, and *Zesta*. One of our subsidiaries is also the exclusive licensee of the *Carr's* cracker and cookie line in the United States.

Our trademarks also include logos and depictions of certain animated characters in conjunction with our products, including *Snap!Crackle!Pop!* for *Cocoa Krispies* and *Rice Krispies* cereals and *Rice Krispies Treats* convenience foods; *Tony the Tiger* for *Kellogg's Frosted Flakes, Zucaritas, Sucrilhos* and *Frosties* cereals and convenience foods; *Ernie Keebler* for cookies, convenience foods and other products; the *Hollow Tree* logo for certain convenience foods; *Toucan Sam* for *Froot Loops*; *Dig Em* for *Smacks*; *Sunny* for *Kellogg's Raisin Bran, Coco the Monkey* for *Coco Pops*; *Cornelius* for *Kellogg's Corn Flakes*; *Melvin* the Elephant for certain cereal and convenience foods; *Chocos* the Bear, *Kobi* the Bear and *Sammy* the Seal for certain cereal products.

The slogans *The Best To You Each Morning, The Original & Best, They're Gr-r-reat!, The Difference is K, One Bowl Stronger, Supercharged, Earn Your Stripes* and *Gotta Have My Pops*, used in connection with our ready-to-eat cereals, along with *L Eggo my Eggo*, used in connection with our frozen waffles and pancakes, *Elfin Magic, Childhood Is Calling, The Cookies in the Passionate Purple Package* and *Uncommonly Good* used in connection with convenience food products, *Seven Whole Grains on a Mission* used in connection with *Kashi* all-natural foods and *See Veggies Differently* used in connection with meat and egg alternatives are also important Kellogg trademarks.

The trademarks listed above, among others, when taken as a whole, are important to our business. Certain individual trademarks are also important to our business. Depending on the jurisdiction, trademarks are generally valid as long as they are in use and/or their registrations are properly maintained and they have not been found to have become generic. Registrations of trademarks can also generally be renewed indefinitely as long as the trademarks are in use.

We consider that, taken as a whole, the rights under our various patents, which expire from time to time, are a valuable asset, but we do not believe that our businesses are materially dependent on any single patent or group of related patents. Our activities under licenses or other franchises or concessions which we hold are similarly a valuable asset, but are not believed to be material.

Seasonality. Demand for our products has generally been approximately level throughout the year, although some of our convenience foods have a bias for stronger demand in the second half of the year due to events and holidays. We also custom-bake cookies for the Girl Scouts of the U.S.A., which are principally sold in the first quarter of the year.

Working Capital. Although terms vary around the world and by business types, in the United States we generally have required payment for goods sold eleven or sixteen days subsequent to the date of invoice as 2% 10/net 11 or 1% 15/net 16. Receipts from goods sold, supplemented as required by borrowings, provide for our payment of dividends, repurchases of our common stock, capital expansion, and for other operating expenses and working capital needs.

Customers. Our largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 21% of consolidated net sales during 2009, comprised principally of sales within the United States. At January 2, 2010, approximately 17% of our consolidated receivables balance and 26% of our U.S. receivables balance was comprised of amounts owed by Wal-Mart Stores, Inc. and its affiliates. No other customer accounted for greater than 10% of net sales in 2009. During 2009, our top five customers, collectively, including Wal-Mart, accounted for approximately 34% of our consolidated net sales and approximately 44% of U.S. net sales. There has been significant worldwide consolidation in the grocery industry in recent years and we believe that this trend is likely to continue. Although the loss of any large customer for an extended length of time could negatively impact our sales and profits, we do not anticipate that this will occur to a significant extent due to the consumer demand for our products and our relationships with our customers. Our products have been generally sold through our own sales forces and through broker and distributor arrangements, and have been generally resold to consumers in retail stores, restaurants, and other food service establishments.

Backlog. For the most part, orders are filled within a few days of receipt and are subject to cancellation at any time prior to shipment. The backlog of any unfilled orders at January 2, 2010 and January 3, 2009 was not material to us.

Competition. We have experienced, and expect to continue to experience, intense competition for sales of all of our principal products in our major product categories, both domestically and internationally. Our products compete with advertised and branded products of a similar nature as well as unadvertised and private label products, which are typically distributed at lower prices, and generally with other food products. Principal methods and factors of competition include new product introductions, product quality, taste, convenience, nutritional value, price, advertising and promotion.

Research and Development. Research to support and expand the use of our existing products and to develop new food products is carried on at the W. K. Kellogg Institute for Food and Nutrition Research in Battle Creek, Michigan, and at other locations around the world. Our expenditures for research and development were approximately \$181 million in 2009 and 2008 and \$179 million in 2007.

Regulation. Our activities in the United States are subject to regulation by various government agencies, including the Food and Drug Administration, Federal Trade Commission and the Departments of Agriculture, Commerce and Labor, as well as voluntary regulation by other bodies. Various state and local agencies also regulate our activities. Other agencies and bodies outside of the United States, including those of the European Union and various countries, states and municipalities, also regulate our activities.

Environmental Matters. Our facilities are subject to various U.S. and foreign, federal, state, and local laws and regulations regarding the discharge of material into the environment and the protection of the environment in other ways. We are not a party to any material proceedings arising under these regulations. We believe that compliance with existing environmental laws and regulations will not materially affect our consolidated financial condition or our competitive position.

Employees. At January 2, 2010, we had approximately 30,900 employees.

Financial Information About Geographic Areas. Information on geographic areas is located in Note 17 within Notes to the Consolidated Financial Statements, which are included herein under Part II, Item 8.

Executive Officers. The names, ages, and positions of our executive officers (as of February 26, 2010) are listed below, together with their business experience. Executive officers are generally elected annually by the Board of Directors at the meeting immediately prior to the Annual Meeting of Shareowners.

James M. Jenness
Chairman of the Board

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Mr. Jenness has been our Chairman since February 2005 and has served as a Kellogg director since 2000. From February 2005 until December 2006, he also served as our Chief Executive Officer. He was Chief Executive Officer of Integrated Merchandising Systems, LLC, a leader in outsource management of retail promotion and branded merchandising from 1997 to December 2004. He is also a director of Kimberly-Clark Corporation.

A. D. David Mackay
President and Chief Executive Officer

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Mr. Mackay became our President and Chief Executive Officer on December 31, 2006 and has served as a Kellogg director since February 2005. Mr. Mackay joined Kellogg Australia in 1985 and held several

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positions with Kellogg USA, Kellogg Australia and Kellogg New Zealand before leaving Kellogg in 1992. He rejoined Kellogg Australia in 1998 as Managing Director and was appointed Managing Director of Kellogg United Kingdom and Republic of Ireland later in 1998. He was named Senior Vice President and President, Kellogg USA in July 2000, Executive Vice President in November 2000, and President and Chief Operating Officer in September 2003. He is also a director of Fortune Brands, Inc.

John A. Bryant

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Executive Vice President and Chief Operating Officer

Mr. Bryant joined Kellogg in March 1998, working in support of the global strategic planning process. He was appointed Senior Vice President and Chief Financial Officer, Kellogg USA, in August 2000, was appointed as Kellogg's Chief Financial Officer in February 2002 and was appointed Executive Vice President later in 2002. He also assumed responsibility for the Natural and Frozen Foods Division, Kellogg USA, in September 2003. He was appointed Executive Vice President and President, Kellogg International in June 2004 and was appointed Executive Vice President and Chief Financial Officer, Kellogg Company, President, Kellogg International in December 2006. In July 2007, Mr. Bryant was appointed Executive Vice President and Chief Financial Officer, Kellogg Company, President, Kellogg North America and in August 2008, he was appointed Executive Vice President, Chief Operating Officer and Chief Financial Officer. Mr. Bryant served as Chief Financial Officer through December 2009.

Celeste Clark

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Senior Vice President, Global Nutrition and

Corporate Affairs, Chief Sustainability Officer

Dr. Clark has been Kellogg's Senior Vice President of Global Nutrition and Corporate Affairs since June 2006. She joined Kellogg in 1977 and served in several roles of increasing responsibility before being appointed to Vice President, Worldwide Nutrition Marketing in 1996 and then to Senior Vice President, Nutrition and Marketing Communications, Kellogg USA in 1999. She was appointed to Vice President, Corporate and Scientific Affairs in October 2002, and to Senior Vice President, Corporate Affairs in August 2003. Her responsibilities were expanded in 2008 to include sustainability.

Bradford J. Davidson

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Senior Vice President, Kellogg Company

President, Kellogg North America

Brad Davidson was appointed President, Kellogg North America in August 2008. Mr. Davidson joined Kellogg Canada as a sales representative in 1984. He held numerous positions in Canada, including manager of trade promotions, account executive, brand manager, area sales manager, director of customer marketing and category management, and director of Western Canada. Mr. Davidson transferred to Kellogg USA in 1997 as director, trade marketing. He later was promoted to Vice President, Channel Sales and Marketing and then to Vice President, National Teams Sales and Marketing. In 2000, he was promoted to Senior Vice President, Sales for the Morning Foods Division, Kellogg USA, and to Executive Vice President and Chief Customer Officer, Morning Foods Division, Kellogg USA in 2002. In June 2003, Mr. Davidson was appointed President, U.S. Snacks and promoted in August 2003 to Senior Vice President.

Ronald L. Dissinger

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Senior Vice President and Chief Financial Officer

Ron Dissinger was appointed Senior Vice President and Chief Financial Officer effective January 2010. Mr. Dissinger joined Kellogg in 1987 as an accounting supervisor, and during the next 14 years served in a number of key financial leadership roles, both in the United States and Australia. In 2001, he was promoted to Vice President and Chief Financial Officer, U.S. Morning Foods. In 2004, Ron became Vice President, Corporate Financial Planning, and CFO, Kellogg International. In 2005, Ron became Vice President and CFO, Kellogg Europe and CFO, Kellogg International. In 2007, he was appointed Senior Vice President and Chief Financial Officer, Kellogg North America.

Timothy P. Mobsby

Senior Vice President, Kellogg Company

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Executive Vice President, Kellogg International and

President, Kellogg Europe

Tim Mobsby has been Senior Vice President, Kellogg Company; Executive Vice President, Kellogg International; and President, Kellogg Europe since October 2000. Mr. Mobsby joined the company in 1982 in the United Kingdom, where he fulfilled a number of roles in the marketing area on both established brands and in new product development. From January 1988 to mid 1990, he worked in the cereal marketing group of Kellogg USA, his last position being Vice President of Marketing. From 1990 to 1993, he was President and Director General of Kellogg France & Benelux, before returning to the United Kingdom as Regional Director, Kellogg Europe and Managing Director, Kellogg Company of Great Britain Limited. He was subsequently appointed Vice President, Marketing, Innovation and Trade Strategy, Kellogg Europe. He was Vice President, Global Marketing from February to October 2000.

Paul T. Norman

Senior Vice President, Kellogg Company

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President, Kellogg International

Paul Norman was appointed President, Kellogg International in August 2008. Mr. Norman joined Kellogg's U.K. sales organization in 1987. He was

promoted to director, marketing, Kellogg de Mexico in January 1997; to Vice President, Marketing, Kellogg USA in February 1999; and to President, Kellogg Canada Inc. in December 2000. In February 2002, he was promoted to Managing Director, United Kingdom/Republic of Ireland and to Vice President in August 2003. He was appointed President, U.S. Morning Foods in September 2004. In December 2005, Mr. Norman was promoted to Senior Vice President.

Gary H. Pilnick

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Senior Vice President, General Counsel,

Corporate Development and Secretary

Mr. Pilnick was appointed Senior Vice President, General Counsel and Secretary in August 2003 and assumed responsibility for Corporate Development in June 2004. He joined Kellogg as Vice President Deputy General Counsel and Assistant Secretary in September 2000 and served in that position until August 2003. Before joining Kellogg, he served as Vice President and Chief Counsel of Sara Lee Branded Apparel and as Vice President and Chief Counsel, Corporate Development and Finance at Sara Lee Corporation.

Dennis W. Shuler

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Senior Vice President, Global Human Resources

Mr. Shuler joined Kellogg on February 18, 2010. In 2009, Mr. Shuler served as President of Core Strengths Management Consulting. From April 2008 to April 2009, he was Executive Vice President and Chief Human Resources Officer at The Walt Disney Company. Prior to that, Mr. Shuler served in progressively responsible human resources positions over a period of 23 years at Procter & Gamble Company in the United States and the United Kingdom, serving as Vice-President of the P&G Beauty global business unit from July 2001 and the Vice President of P&G Beauty and Health & Well Being global business units from July 2006 through March 2008.

Alan R. Andrews

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Vice President and Corporate Controller

Mr. Andrews joined Kellogg Company in 1982. He served in various financial roles before relocating to China as general manager of Kellogg China in 1993. He subsequently served in several leadership innovation and finance roles before being promoted to Vice President, International Finance, Kellogg International in 2000. In 2002, he was appointed to Assistant Corporate Controller and assumed his current position in June 2004.

Availability of Reports; Website Access; Other Information. Our internet address is <http://www.kelloggcompany.com>. Through Investor Relations Financials SEC Filings on our home page, we make available free of charge our proxy statements, our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, SEC Forms 3, 4 and 5 and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Our reports filed with the Securities and Exchange Commission are also made available to read and copy at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the Public Reference Room by contacting the SEC at 1-800-SEC-0330. Reports filed with the SEC are also made available on its website at www.sec.gov.

Copies of the Corporate Governance Guidelines, the Charters of the Audit, Compensation and Nominating and Governance Committees of the Board of Directors, the Code of Conduct for Kellogg Company directors and Global Code of Ethics for Kellogg Company employees (including the chief executive officer, chief financial officer and corporate controller) can also be found on the Kellogg Company website. Any amendments or waivers to the Global Code of Ethics applicable to the chief executive officer, chief financial officer and corporate controller can also be found in the Investor Relations section of the Kellogg Company website. Shareowners may also request a free copy of these documents from: Kellogg Company, P.O. Box CAMB, Battle Creek, Michigan 49086-1986 (phone: (800) 961-1413), Investor Relations Department at that same address (phone: (269) 961-2800) or investor.relations@kellogg.com.

Forward-Looking Statements. This Report contains forward-looking statements with projections concerning, among other things, our strategy, financial principles, and plans; initiatives, improvements and growth; sales, gross margins, advertising, promotion, merchandising, brand

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building, operating profit, and earnings per share; innovation; investments; capital expenditures; asset write-offs and expenditures and costs related to productivity or efficiency initiatives; the impact of accounting changes and significant accounting estimates; our ability to meet interest and debt principal repayment obligations; minimum contractual obligations; future common stock repurchases or debt reduction; effective income tax rate; cash flow and core working capital improvements; interest expense; commodity and energy prices; and employee benefit plan costs and funding. Forward-looking statements include predictions of future results or activities and may contain the words "expect," "believe," "will," "will deliver," "anticipate," "project," "should," or words or phrases of similar meaning. For example, forward-looking statements are found in this Item 1 and in several sections of Management's Discussion and Analysis. Our actual results or activities may differ materially from these predictions. Our future results

could be affected by a variety of factors, including the impact of competitive conditions; the effectiveness of pricing, advertising, and promotional programs; the success of innovation, renovation and new product introductions; the recoverability of the carrying value of goodwill and other intangibles; the success of productivity improvements and business transitions; commodity and energy prices; labor costs; disruptions or inefficiencies in supply chain; the availability of and interest rates on short-term and long-term financing; actual market performance of benefit plan trust investments; the levels of spending on systems initiatives, properties, business opportunities, integration of acquired businesses, and other general and administrative costs; changes in consumer behavior and preferences; the effect of U.S. and foreign economic conditions on items such as interest rates, statutory tax rates, currency conversion and availability; legal and regulatory factors including changes in advertising and labeling laws and regulations; the ultimate impact of product recalls; business disruption or other losses from war, terrorist acts, or political unrest and the risks and uncertainties described in Item 1A below. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to publicly update them.

ITEM 1A. RISK FACTORS

In addition to the factors discussed elsewhere in this Report, the following risks and uncertainties could materially adversely affect our business, financial condition and results of operations. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations and financial condition.

Our results may be materially and adversely impacted as a result of increases in the price of raw materials, including agricultural commodities, fuel and labor.

Agricultural commodities, including corn, wheat, soybean oil, sugar and cocoa, are the principal raw materials used in our products. Cartonboard, corrugated, and plastic are the principal packaging materials used by us. The cost of such commodities may fluctuate widely due to government policy and regulation, weather conditions, climate change or other unforeseen circumstances. To the extent that any of the foregoing factors affect the prices of such commodities and we are unable to increase our prices or adequately hedge against such changes in prices in a manner that offsets such changes, the results of our operations could be materially and adversely affected. In addition, we use derivatives to hedge price risk associated with forecasted purchases of raw materials. Our hedged price could exceed the spot price on the date of purchase, resulting in an unfavorable impact on both gross margin and net earnings.

Cereal processing ovens at major domestic and international facilities are regularly fueled by natural gas or propane, which are obtained from local utilities or other local suppliers. Short-term stand-by propane storage exists at several plants for use in case of interruption in natural gas supplies. Oil may also be used to fuel certain operations at various plants. In addition, considerable amounts of diesel fuel are used in connection with the distribution of our products. The cost of fuel may fluctuate widely due to economic and political conditions, government policy and regulation, war, or other unforeseen circumstances which could have a material adverse effect on our consolidated operating results or financial condition.

A shortage in the labor pool or other general inflationary pressures or changes in applicable laws and regulations could increase labor cost, which could have a material adverse effect on our consolidated operating results or financial condition.

Additionally, our labor costs include the cost of providing benefits for employees. We sponsor a number of defined benefit plans for employees in the United States and various foreign locations, including pension, retiree health and welfare, active health care, severance and other postemployment benefits. We also participate in a number of multiemployer pension plans for certain of our manufacturing locations. Our major pension plans and U.S. retiree health and welfare plans are funded with trust assets invested in a globally diversified portfolio of equity securities with smaller holdings of bonds, real estate and other investments. The annual cost of benefits can vary significantly from year to year and is materially affected by such factors as changes in the assumed or actual rate of return on major plan assets, a change in the weighted-average discount rate used to measure obligations, the rate or trend of health care cost inflation, and the outcome of collectively-bargained wage and benefit agreements.

Our operations face significant foreign currency exchange rate exposure which could negatively impact our operating results.

We hold assets and incur liabilities, earn revenue and pay expenses in a variety of currencies other than the U.S. dollar, including the British pound, euro, Australian dollar, Canadian dollar, Venezuelan bolivar fuerte, Russian ruble and Mexican peso. Because our consolidated financial statements are presented in U.S. dollars, we must translate our assets, liabilities, revenue and expenses into U.S. dollars at then-applicable exchange rates. Consequently, changes in the value of the U.S. dollar may negatively affect the value of these items in our consolidated financial statements, even if their value has not changed in their original currency.

Concerns with the safety and quality of food products could cause consumers to avoid certain food products or ingredients.

We could be adversely affected if consumers lose confidence in the safety and quality of certain food

products or ingredients, or the food safety system generally. Adverse publicity about these types of concerns, whether or not valid, may discourage consumers from buying our products or cause production and delivery disruptions.

If our food products become adulterated or misbranded, we might need to recall those items and may experience product liability if consumers are injured as a result.

Selling food products involves a number of legal and other risks, including product contamination, spoilage, product tampering or other adulteration. We may need to recall some of our products if they become adulterated or misbranded. We may also be liable if the consumption of any of our products causes injury, illness or death. A widespread product recall or market withdrawal could result in significant losses due to their costs, the destruction of product inventory, and lost sales due to the unavailability of product for a period of

time. For example, in January 2009, we initiated a recall of certain *Austin* and *Keebler* branded peanut butter sandwich crackers and certain *Famous Amos* and *Keebler* branded peanut butter cookies as a result of potential contamination of ingredients at a supplier's facility. The recall was expanded in late January and February to include *Bear Naked*, *Kashi* and *Special K* products impacted by that same supplier's ingredients. The costs of the recall negatively impacted gross margin and operating profit in fiscal 2008 and 2009. We could also suffer losses from a significant product liability judgment against us. A significant product recall or product liability case could also result in adverse publicity, damage to our reputation, and a loss of consumer confidence in our food products, which could have a material adverse effect on our business results and the value of our brands. Moreover, even if a product liability or consumer fraud claim is meritless, does not prevail or is not pursued, the negative publicity surrounding assertions against our Company and our products or processes could adversely affect our reputation or brands.

Disruption of our supply chain could have an adverse effect on our business, financial condition and results of operations.

Our ability, including manufacturing or distribution capabilities, and that of our suppliers, business partners and contract manufacturers, to make, move and sell products is critical to our success. Damage or disruption to our or their manufacturing or distribution capabilities due to weather, natural disaster, fire or explosion, terrorism, pandemics, strikes, repairs or enhancements at our facilities, or other reasons, could impair our ability to manufacture or sell our products. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could adversely affect our business, financial condition and results of operations, as well as require additional resources to restore our supply chain.

Changes in tax, environmental, food quality and safety or other regulations or failure to comply with existing licensing, trade, food quality and safety and other regulations and laws could have a material adverse effect on our consolidated financial condition.

Our activities, both in and outside of the United States, are subject to regulation by various federal, state, provincial and local laws, regulations and government agencies, including the U.S. Food and Drug Administration, U.S. Federal Trade Commission, the U.S. Departments of Agriculture, Commerce and Labor, as well as similar and other authorities of the European Union, International Accords and Treaties and others, including voluntary regulation by other bodies.

The manufacturing, marketing and distribution of food products are subject to governmental regulation that is becoming increasingly burdensome. Those regulations control such matters as food quality and safety, ingredients, advertising, relations with distributors and retailers, health and safety and the environment. We are also regulated with respect to matters such as licensing requirements, trade and pricing practices, tax and environmental matters. The need to comply with new or revised tax, environmental, food quality and safety or other laws or regulations, or new or changed interpretations or enforcement of existing laws or regulations, may have a material adverse effect on our business and results of operations. Further, if we are found to be out of compliance with applicable laws and regulations in these areas, we could be subject to civil remedies, including fines, injunctions, or recalls, as well as potential criminal sanctions, any of which could have a material adverse effect on our business.

If we pursue strategic acquisitions, divestitures or joint ventures, we may not be able to successfully consummate favorable transactions or successfully integrate acquired businesses.

From time to time, we may evaluate potential acquisitions, divestitures or joint ventures that would further our strategic objectives. With respect to acquisitions, we may not be able to identify suitable candidates, consummate a transaction on terms that are favorable to us, or achieve expected returns and other benefits as a result of integration challenges. With respect to proposed divestitures of assets or businesses, we may encounter difficulty in finding acquirers or alternative exit strategies on terms that are favorable to us, which could delay the accomplishment of our strategic objectives, or our divestiture activities may require us to recognize impairment charges. Companies or operations acquired or joint ventures created may not be profitable or may not achieve sales levels and profitability that justify the investments made. Our

corporate development activities may present financial and operational risks, including diversion of management attention from existing core businesses, integrating or separating personnel and financial and other systems, and adverse effects on existing business relationships with suppliers and customers. Future acquisitions could also result in potentially dilutive issuances of equity securities, the incurrence of debt, contingent liabilities and/or amortization expenses related to certain intangible assets and increased operating expenses, which could adversely affect our results of operations and financial condition.

Our consolidated financial results and demand for our products are dependent on the successful development of new products and processes.

There are a number of trends in consumer preferences which may impact us and the industry as a whole. These include changing consumer dietary trends and the availability of substitute products.

Our success is dependent on anticipating changes in consumer preferences and on successful new product and process development and product relaunches in response to such changes. We aim to introduce products or new or improved production processes on a timely basis in order to counteract obsolescence and decreases in sales of existing products. While we devote significant focus to the development of new products and to the research, development and technology process functions of our business, we may not be successful in developing new products or our new products may not be commercially successful. Our future results and our ability to maintain or improve our competitive position will depend on our capacity to gauge the direction of our key markets and upon our ability to successfully identify, develop, manufacture, market and sell new or improved products in these changing markets.

We operate in the highly competitive food industry.

We face competition across our product lines, including ready-to-eat cereals and convenience foods, from other companies which have varying abilities to withstand changes in market conditions. Some of our competitors have substantial financial, marketing and other resources, and competition with them in our various markets and product lines could cause us to reduce prices, increase capital, marketing or other expenditures, or lose category share, any of which could have a material adverse effect on our business and financial results. Category share and growth could also be adversely impacted if we are not successful in introducing new products.

Potential liabilities and costs from litigation could adversely affect our business.

There is no guarantee that the Company will be successful in defending itself in civil, criminal or regulatory actions, including under environmental, food quality and safety, and environmental laws and regulations, or in asserting its rights under various laws. In addition, the Company could incur substantial costs and fees in defending itself or in asserting its rights in these actions or meeting new legal requirements. The costs and other effects of potential and pending litigation and administrative actions against the Company, and new legal requirements, cannot be determined with certainty and may differ from expectations.

We have a substantial amount of indebtedness.

We have indebtedness that is substantial in relation to our shareholders' equity. As of January 2, 2010, we had total debt of approximately \$4.9 billion and total equity of \$2.3 billion.

Our substantial indebtedness could have important consequences, including:

impairing the ability to obtain additional financing for working capital, capital expenditures or general corporate purposes, particularly if the ratings assigned to our debt securities by rating organizations were revised downward.

A downgrade in our credit ratings, particularly our short-term credit rating, would likely reduce the amount of commercial paper we could issue, increase our commercial paper borrowing costs, or both;

restricting our flexibility in responding to changing market conditions or making us more vulnerable in the event of a general downturn in economic conditions or our business;

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requiring a substantial portion of the cash flow from operations to be dedicated to the payment of principal and interest on our debt, reducing the funds available to us for other purposes such as expansion through acquisitions, marketing spending and expansion of our product offerings; and

causing us to be more leveraged than some of our competitors, which may place us at a competitive disadvantage.

Our ability to make scheduled payments or to refinance our obligations with respect to indebtedness will depend on our financial and operating performance, which in turn, is subject to prevailing economic conditions, the availability of, and interest rates on, short-term financing, and financial, business and other factors beyond our control.

Our performance is affected by general economic and political conditions and taxation policies.

Customer and consumer demand for our products may be impacted by recession, financial and credit market disruptions, or other economic downturns in the United States or other nations. Our results in the

past have been, and in the future may continue to be, materially affected by changes in general economic and political conditions in the United States and other countries, including the interest rate environment in which we conduct business, the financial markets through which we access capital and currency, political unrest and terrorist acts in the United States or other countries in which we carry on business.

The enactment of or increases in tariffs, including value added tax, or other changes in the application of existing taxes, in markets in which we are currently active or may be active in the future, or on specific products that we sell or with which our products compete, may have an adverse effect on our business or on our results of operations.

We may be unable to maintain our profit margins in the face of a consolidating retail environment. In addition, the loss of one of our largest customers could negatively impact our sales and profits.

Our largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 21% of consolidated net sales during 2009, comprised principally of sales within the United States. At January 2, 2010, approximately 17% of our consolidated receivables balance and 26% of our U.S. receivables balance was comprised of amounts owed by Wal-Mart Stores, Inc. and its affiliates. No other customer accounted for greater than 10% of net sales in 2009. During 2009, our top five customers, collectively, including Wal-Mart, accounted for approximately 34% of our consolidated net sales and approximately 44% of U.S. net sales. As the retail grocery trade continues to consolidate and mass marketers become larger, our large retail customers may seek to use their position to improve their profitability through improved efficiency, lower pricing and increased promotional programs. If we are unable to use our scale, marketing expertise, product innovation and category leadership positions to respond, our profitability or volume growth could be negatively affected. The loss of any large customer for an extended length of time could negatively impact our sales and profits.

An impairment in the carrying value of goodwill or other acquired intangibles could negatively affect our consolidated operating results and net worth.

The carrying value of goodwill represents the fair value of acquired businesses in excess of identifiable assets and liabilities as of the acquisition date. The carrying value of other intangibles represents the fair value of trademarks, trade names, and other acquired intangibles as of the acquisition date. Goodwill and other acquired intangibles expected to contribute indefinitely to our cash flows are not amortized, but must be evaluated by management at least annually for impairment. If carrying value exceeds current fair value, the intangible is considered impaired and is reduced to fair value via a charge to earnings. Events and conditions which could result in an impairment include changes in the industries in which we operate, including competition and advances in technology; a significant product liability or intellectual property claim; or other factors leading to reduction in expected sales or profitability. Should the value of one or more of the acquired intangibles become impaired, our consolidated earnings and net worth may be materially adversely affected.

As of January 2, 2010, the carrying value of intangible assets totaled approximately \$5.1 billion, of which \$3.6 billion was goodwill and \$1.5 billion represented trademarks, tradenames, and other acquired intangibles compared to total assets of \$11.2 billion and total equity of \$2.3 billion.

Economic downturns could limit consumer demand for our products.

Retailers are increasingly offering private label products that compete with our products. Consumers' willingness to purchase our products will depend upon our ability to offer products that appeal to consumers at the right price. It is also important that our products are perceived to be of a higher quality than less expensive alternatives. If the difference in quality between our products and those of store brands narrows, or if such difference in quality is perceived to have narrowed, then consumers may not buy our products. Furthermore, during periods of economic uncertainty, consumers tend to purchase more private label or other economy brands, which could reduce sales volumes of our higher margin products or there could be a shift in our product mix to our lower margin offerings. If we are not able to maintain or improve our brand image, it could have a material effect on our market share and our profitability.

We may not achieve our targeted cost savings and efficiencies from cost reduction initiatives.

Our success depends in part on our ability to be an efficient producer in a highly competitive industry. We have invested a significant amount in capital expenditures to improve our operational facilities. Ongoing operational issues are likely to occur when carrying out major production, procurement, or logistical changes and these, as well as any failure by us to achieve our planned cost savings and efficiencies, could have a material adverse effect on our business and consolidated financial position and on the consolidated results of our operations and profitability.

Technology failures could disrupt our operations and negatively impact our business.

We increasingly rely on information technology systems to process, transmit, and store electronic information. For example, our production and

distribution facilities and inventory management utilize information technology to increase efficiencies and limit costs. Furthermore, a significant portion of the communications between our personnel, customers, and suppliers depends on information technology. Like other companies, our information technology systems

may be vulnerable to a variety of interruptions due to events beyond our control, including, but not limited to, natural disasters, terrorist attacks, telecommunications failures, computer viruses, hackers, and other security issues. We have technology security initiatives and disaster recovery plans in place or in process to mitigate our risk to these vulnerabilities, but these measures may not be adequate.

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products and brands.

We consider our intellectual property rights, particularly and most notably our trademarks, but also including patents, trade secrets, copyrights and licensing agreements, to be a significant and valuable aspect of our business. We attempt to protect our intellectual property rights through a combination of patent, trademark, copyright and trade secret laws, as well as licensing agreements, third party nondisclosure and assignment agreements and policing of third party misuses of our intellectual property. Our failure to obtain or adequately protect our trademarks, products, new features of our products, or our technology, or any change in law or other changes that serve to lessen or remove the current legal protections of our intellectual property, may diminish our competitiveness and could materially harm our business.

We may be unaware of intellectual property rights of others that may cover some of our technology, brands or products. Any litigation regarding patents or other intellectual property could be costly and time-consuming and could divert the attention of our management and key personnel from our business operations. Third party claims of intellectual property infringement might also require us to enter into costly license agreements. We also may be subject to significant damages or injunctions against development and sale of certain products.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters and principal research and development facilities are located in Battle Creek, Michigan.

We operated, as of February 26, 2010, manufacturing plants and distribution and warehousing facilities totaling more than 30 million square feet of building area in the United States and other countries. Our plants have been designed and constructed to meet our specific production requirements, and we periodically invest money for capital and technological improvements. At the time of its selection, each location was considered to be favorable, based on the location of markets, sources of raw materials, availability of suitable labor, transportation facilities, location of our other plants producing similar products, and other factors. Our manufacturing facilities in the United States include four cereal plants and warehouses located in Battle Creek, Michigan; Lancaster, Pennsylvania; Memphis, Tennessee; and Omaha, Nebraska and other plants in San Jose, California; Atlanta, Augusta, Columbus, and Rome, Georgia; Chicago, Illinois; Seelyville, Indiana, Kansas City, Kansas; Florence, Louisville, and Pikeville, Kentucky; Grand Rapids and Wyoming, Michigan; Blue Anchor, New Jersey; Cary and Charlotte, North Carolina; Cincinnati, West Jefferson, and Zanesville, Ohio; Muncy, Pennsylvania; Rossville, Tennessee; Clearfield, Utah; and Allyn, Washington.

Outside the United States, we had, as of February 26, 2010, additional manufacturing locations, some with warehousing facilities, in Australia, Brazil, Canada, China, Colombia, Ecuador, Germany, Great Britain, India, Japan, Mexico, Russia, South Africa, South Korea, Spain, Thailand, and Venezuela.

We generally own our principal properties, including our major office facilities, although some manufacturing facilities are leased, and no owned property is subject to any major lien or other encumbrance. Distribution facilities (including related warehousing facilities) and offices of non-plant locations typically are leased. In general, we consider our facilities, taken as a whole, to be suitable, adequate, and of sufficient capacity for our current operations.

ITEM 3. LEGAL PROCEEDINGS

We are subject to various legal proceedings, claims, and governmental inspections or investigations arising out of our business which cover matters such as general commercial, governmental regulations, antitrust and trade regulations, product liability, environmental, intellectual property, employment and other actions. In the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on our financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Information on the market for our common stock, number of shareowners and dividends is located in Note 16 within Notes to the Consolidated Financial Statements.

On February 5, 2009, the Board of Directors authorized the repurchase of \$650 million of Kellogg common stock during 2009 for general corporate purposes and to offset issuances for employee benefit programs. During the quarter ended January 2, 2010, the Company did not acquire any shares of its common stock. During 2009, the Company spent \$187 million to repurchase 4 million shares. The unused portion of the 2009 authorization, amounting to \$463 million, was rolled over and is available to be executed in 2010. On October 23, 2009, the Board of Directors authorized an additional stock repurchase program of up to \$650 million for 2010.

ITEM 6. SELECTED FINANCIAL DATA

Kellogg Company and Subsidiaries

Selected Financial Data

(millions, except per share data and number of employees)	2009	2008	2007	2006	2005
Operating trends (a)					
Net sales	\$ 12,575	\$ 12,822	\$ 11,776	\$ 10,907	\$ 10,177
Gross profit as a % of net sales	42.9%	41.9%	44.0%	44.2%	44.9%
Depreciation	381	374	364	351	390
Amortization	3	1	8	2	2
Advertising expense	1,091	1,076	1,063	916	858
Research and development expense	181	181	179	191	181
Operating profit	2,001	1,953	1,868	1,766	1,750
Operating profit as a % of net sales	15.9%	15.2%	15.9%	16.2%	17.2%
Interest expense	295	308	319	307	300
Net income attributable to Kellogg Company	1,212	1,148	1,103	1,004	980
Average shares outstanding:					
Basic	382	382	396	397	412
Diluted	384	385	400	400	416
Per share amounts:					
Basic	3.17	3.01	2.79	2.53	2.38
Diluted	3.16	2.99	2.76	2.51	2.36
Cash flow trends					
Net cash provided by operating activities	\$ 1,643	\$ 1,267	\$ 1,503	\$ 1,410	\$ 1,143
Capital expenditures	377	461	472	453	374
Net cash provided by operating activities reduced by capital expenditures (b)	1,266	806	1,031	957	769
Net cash used in investing activities	(370)	(681)	(601)	(445)	(415)
Net cash used in financing activities	(1,182)	(780)	(788)	(789)	(905)
Interest coverage ratio (c)	8.0	7.5	7.0	6.9	7.1
Capital structure trends					
Total assets	\$ 11,200	\$ 10,946	\$ 11,397	\$ 10,714	\$ 10,575
Property, net	3,010	2,933	2,990	2,816	2,648
Short-term debt	45	1,388	1,955	1,991	1,195
Long-term debt	4,835	4,068	3,270	3,053	3,703
Total Kellogg Company equity (d)	2,272	1,448	2,526	2,069	2,284
Share price trends					
Stock price range	\$ 36-54	\$ 40-59	\$ 49-57	\$ 42-51	\$ 42-47
Cash dividends per common share	1.430	1.300	1.202	1.137	1.060
Number of employees	30,949	32,394	26,494	25,856	25,606

(a) Fiscal year 2008 contains a 53rd shipping week. Refer to Note 1 within Notes to Consolidated Financial Statements.

(b) The Company uses this non-GAAP financial measure to focus management and investors on the amount of cash available for debt repayment, dividend distribution, acquisition opportunities, and share repurchase, which is reconciled above.

(c) Interest coverage ratio is calculated based on income before interest expense, income taxes, depreciation and amortization, divided by interest expense.

(d) 2008 change due primarily to currency translation adjustments of (\$431) and net experience losses in postretirement and postemployment benefit plans of (\$865).

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Kellogg Company and Subsidiaries

RESULTS OF OPERATIONS**Overview**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand Kellogg Company, our operations and our present business environment. MD&A is provided as a supplement to, and should be read in conjunction with, our Consolidated Financial Statements and the accompanying notes thereto contained in Item 8 of this report.

Kellogg Company is the world's leading producer of cereal and a leading producer of convenience foods, including cookies, crackers, toaster pastries, cereal bars, fruit snacks, frozen waffles, and veggie foods. Kellogg products are manufactured and marketed globally. We currently manage our operations in four geographic operating segments, comprised of North America and the three International operating segments of Europe, Latin America, and Asia Pacific.

We manage our Company for sustainable performance defined by our long-term annual growth targets. These targets are low single-digit (1 to 3%) for internal net sales, mid single-digit (4 to 6%) for internal operating profit, and high single-digit (7 to 9%) for diluted net earnings per share (EPS) on a currency neutral basis. See Foreign currency translation section for our definition of currency neutral EPS.

For our full year 2009, we were at the high end of our long-term annual net sales target with internal growth of 3%. On a reported basis, net sales declined by 2%. Consolidated internal operating profit increased 10%, exceeding our long-term annual growth target. Reported operating profit grew 2%. Diluted EPS grew 13% on a currency neutral basis, exceeding our long-term annual growth target of 7 to 9%. Reported EPS was \$3.16, an increase of 6% over last year's \$2.99.

Consolidated results

(dollars in millions, except per share data)		2009	2008	2007
Net sales		\$ 12,575	\$ 12,822	\$ 11,776
Net sales growth:	As reported	1.9%	8.9%	8.0%
	Internal (a)	3.0%	5.4%	5.4%
Operating profit		\$ 2,001	\$ 1,953	\$ 1,868
Operating profit growth:	As reported	2.5%	4.5%	5.8%
	Internal (a)	10.3%	4.2%	3.1%
Diluted net earnings per share (EPS)		\$ 3.16	\$ 2.99	\$ 2.76
EPS growth		6%	8%	10%
Currency neutral diluted EPS growth (b)		13%	8%	7%

(a) Internal net sales and operating profit for 2009 exclude the impact of currency and acquisitions. Internal net sales and operating profit growth for 2008 exclude the impact of currency, a 53rd shipping week and acquisitions. Internal net sales and operating profit for 2007 excludes the impact of currency. Internal net sales and operating profit growth is a non-GAAP financial measure which is further discussed and reconciled to GAAP basis growth on page 16.

(b) See the section entitled Foreign currency translation for discussion and reconciliation of the non-GAAP financial measure.

In combination with an attractive dividend yield, we believe this profitable growth has and will continue to provide a strong total return to our shareholders. We believe we can achieve this sustainable growth through a strategy focused on growing our cereal business, expanding our snacks business, and pursuing selected growth opportunities. We support our business strategy with operating principles that emphasize profit-rich, sustainable sales growth, as well as cash flow and return on invested capital. We believe our steady earnings growth, strong cash flow, and continued investment during a multi-year period of economic uncertainty demonstrates the strength and flexibility of our business model.

Net sales and operating profit

2009 compared to 2008

The following table provides an analysis of net sales and operating profit performance for 2009 versus 2008:

	Asia		Pacific			
(dollars in millions)	North America	Europe	Latin America	(a)	Corporate	Consolidated
2009 net sales	\$8,510	\$ 2,361	\$ 963	\$ 741	\$	\$12,575
2008 net sales	\$8,457	\$ 2,619	\$ 1,030	\$ 716	\$	\$12,822
% change 2009 vs. 2008:						
Volume (tonnage) (b)	.7%	1.6%	1.2%	1.3%		.7%
Pricing/mix	3.5%	3.2%	5.6%	6.3%		3.7%
Subtotal internal business	2.8%	1.6%	6.8%	5.0%		3.0%
Acquisitions (c)	.1%	.3%		3.7%		.3%
Shipping day differences (d)	1.8%	1.1%	.5%	.9%		1.5%
Foreign currency impact	.5%	10.6%	12.9%	4.3%		3.7%
Total change	.6%	9.8%	6.6%	3.5%		1.9%

	Asia		Pacific			
(dollars in millions)	North America	Europe	Latin America	(a)	Corporate	Consolidated
2009 operating profit	\$1,569	\$ 348	\$ 179	\$ 86	\$(181)	\$ 2,001
2008 operating profit	\$1,447	\$ 390	\$ 209	\$ 92	\$(185)	\$ 1,953
% change 2009 vs. 2008:						
Internal business	11.4%	7.0%	2.0%	13.5%		10.3%
Acquisitions (c)				8.4%		.4%
Shipping day differences (d)	2.4%	1.3%	.9%	.8%	1.8%	1.8%
Foreign currency impact	.5%	16.5%	13.1%	10.5%		5.6%
Total change	8.5%	10.8%	14.2%	6.2%	1.8%	2.5%

(a) Includes Australia, Asia and South Africa.

(b) We measure the volume impact (tonnage) on revenues based on the stated weight of our product shipments.

(c) Impact of results for the year-to-date period ended January 2, 2010 from the acquisitions of United Bakers, Navigable Foods, Specialty Cereal and certain assets and liabilities of IndyBake.

(d) Impact of 53rd shipping week in 2008.

Our consolidated reported net sales were down compared to last year, driven by a negative impact from foreign currency translation and an extra shipping week in 2008. Excluding this negative impact, internal net sales grew by 3%, lapping last year's strong 5% growth. While our overall volume declined, we achieved internal sales growth driven by a particularly strong year in retail cereal and a solid year in retail snacks resulting from our pricing and mix. There were several factors contributing to the volume decline. In North America, we experienced a supply disruption in our waffle plants. In both Russia and China we are moving our businesses away from lower margin products and going to higher margin branded products which resulted in a decline in volume during the year.

Our North America operating segment had internal net sales growth of almost 3% against a difficult 6% comparative in the year ago period. We experienced growth in retail cereal of 4% and 3% growth in retail snacks, which includes cookies, crackers, toaster pastries, cereal bars and fruit snacks. Weakness in frozen and specialty channels, which includes frozen foods, food service and vending, dampened net sales for the year, with

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a decline in net sales of 1%.

Cereal continues to be a strong category where we achieved volume growth during the year. It responds well to innovation and advertising. We are committed to providing nutritious food to our consumers and introduced *Froot Loops*[®] and *Apple Jacks*[®] with fiber in August of 2009. Our business is focused on driving our top 8 brands as well as *Kashi*[®] cereals.

We experienced broad based growth in retail snacks, with sales growth of 3%. *Pop-Tarts*[®] continues to perform well and is the category leader in North America toaster pastries. A strong performance by *Cheez-It*[®], as well as innovation, drove growth in crackers. Cookies posted a slight gain for the year led by our recently acquired *Mother's*[®] brand cookies. Our growth was negatively impacted by heavy competitor activity. Our best performing category within retail snacks was wholesome snacks. The introduction of *Fiber Plus*[®], *Special K*[®] Chocolate Pretzel and *Cinnabon*[®] bars drove growth in this category

Our frozen and specialty channels business was down 1%, experiencing a tough year due to a few discrete issues. Our food service business is mostly non-commercial, serving institutions such as schools, hospitals and prisons. This sector of the industry was not immediately impacted by the economic downturn that started in 2008. While we are seeing a recovery, we believe it will be slower than the commercial sectors such as hotels and restaurants, continuing to impact us until mid-2010. We have also been experiencing a supply disruption in our waffle facilities. We have been making improvements in our facilities and are working with regulatory agencies. A combination of extensive enhancements and repairs at our facilities and a flood at one facility, significantly impacted production in the second-half of the year. While our plants are operational, they are not running at their previous level of capacity. Demand continues to exceed supply. We are exploring ways to increase capacity, including investing additional capital, but expect this situation will impact our net sales in 2010. This impact is included in our 2010 guidance.

Our International operating segments collectively achieved net sales growth of 3% on an internal basis. Europe's internal net sales increased 2% year-over-year. Europe was a tough environment for us in 2009. We encountered some retailer disputes earlier in the year that were resolved in the second half of the year, helping us to achieve cereal volume growth. Latin America's internal net sales growth was 7% attributable to both volume and price increases driven by retail cereal in Mexico and Venezuela. Internal net sales in Asia Pacific grew 5%, driven by strong cereal performances in Australia and India.

Our consolidated operating profit was strong, increasing by 10% on an internal basis and by 2% on a reported basis. Reported operating profit in each of our operating segments was negatively impacted by foreign exchange as well as the absence of a 53rd week in 2009. In 2009, we continued to experience cost

pressures, increased our spending on up-front costs, and invested in advertising. We were able to more than offset these increased costs by savings from our cost reduction and productivity initiatives as well as pricing and mix. During the full-year of 2009, our up-front costs were \$138 million, which were \$63 million higher than the previous year. Up-front costs represent both exit or disposal activities as well as other cost reduction initiatives.

North America's internal operating profit growth of 11% was driven by price and savings from our cost reduction initiatives, which was partially offset by significantly higher up-front costs and increased advertising. Up-front costs reduced North America's operating profit by 4%. Europe's internal operating profit increased 7% benefiting from media deflation and operating efficiencies while absorbing higher up-front costs which reduced operating profit by 3%. Internal operating profit decreased 2% in Latin America due to significantly higher material costs and increased advertising. Internal operating profit growth in Asia Pacific was 14% due to sales growth, while reported operating profit was negatively impacted by the acquisition of Navigable Foods. For further information on our acquisitions, see Note 2 within Notes to Consolidated Financial Statements.

2008 compared to 2007

The following tables provide an analysis of net sales and operating profit performance for 2008 versus 2007:

	North America	Europe	Latin America	Asia Pacific (a)	Corporate	Consolidated
(dollars in millions)						
2008 net sales	\$ 8,457	\$ 2,619	\$ 1,030	\$ 716	\$	\$ 12,822
2007 net sales	\$ 7,786	\$ 2,357	\$ 984	\$ 649	\$	\$ 11,776
% change 2008 vs. 2007:						
Volume (tonnage) (b)	1.3%	.2%	2.6%	6.3%		.9%
Pricing/mix	4.5%	3.9%	6.9%	1.8%		4.5%
Subtotal internal business	5.8%	3.7%	4.3%	8.1%		5.4%
Acquisitions (c)	.9%	5.5%		3.4%		1.8%
Shipping day differences (d)	1.9%	1.2%	.5%	1.0%		1.7%
Foreign currency impact		.7%	.1%	2.2%		
Total change	8.6%	11.1%	4.7%	10.3%		8.9%

	North America	Europe	Latin America	Asia Pacific (a)	Corporate	Consolidated
(dollars in millions)						
2008 operating profit	\$ 1,447	\$ 390	\$ 209	\$ 92	\$ (185)	\$ 1,953
2007 operating profit	\$ 1,345	\$ 397	\$ 213	\$ 88	\$ (175)	\$ 1,868
% change 2008 vs. 2007:						